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SUBJECT: The Politics of Porsche Buyout Could Hurt Merkel's
Christian Democrats in the South

Sensitive but unclassified; not for internet distribution.

¶1. SUMMARY: The takeover of one of Baden-Wuerttemberg's (B-W) archetypal firms, luxury sports car manufacturer Porsche, by Lower-Saxony based Volkswagen (VW), has local business people grumbling, and the fallout could cause problems for the Christian Democrat Union (CDU) as it gears up for the September Bundestag vote. With VW now controlling Porsche, one of B-W's most prestigious businesses has lost its independence with the net result of Baden-Wuerttemberg losing a significant part of Porsche's business tax payments. Within B-W, much of the fault is being placed on Minister-President Oettinger and his lack of clout in Berlin. The Christian Democrats need a strong showing in core areas of support such as Baden-Wuerttemberg to do well in the September Bundestag elections - at least well enough to be able to form their preferred coalition with the Free Democratic Party (FDP). Current dissatisfaction with Berlin epitomized by the VW/Porsche fallout could deflate the CDU vote and result in some supporters staying home or giving their support to the FDP, which already has a strong base in the state. END SUMMARY.

SWALLOWED UP

¶2. The 14 August agreement in which VW will buy up to 42 percent of Porsche ends a long struggle between the two companies that began with Porsche first trying to acquire VW. Between 2005-07 Porsche bought 30 percent of VW, and by the end of 2008, held over 50 percent. Porsche then sought to take over the firm and spent 23 billion Euros planning for a bid. In April 2009, however, reports began to surface that the company was up to ten billion Euros in debt and facing difficulties meeting its obligations. Instead of taking over VW, VW then sought to take control of Porsche, and a commercial battle ensued between the two companies that was overlaid by political maneuvering (see SEPTTEL). Its resolution entails a complete takeover of Porsche, with VW management overseeing its operations from its headquarters in Wolfsburg, Lower-Saxony. However, Porsche's 11,000(?) jobs in Stuttgart are not at risk.

¶3. The agreement also represents a major political defeat for Oettinger at the hands of his CDU colleague, Lower Saxony Minister-President Wulff, who aggressively pushed for a Porsche take-over while Oettinger remained silent. Wulff worked hand-in-glove with VW management (Lower Saxony holds a 20 percent share of VW), while Oettinger was seen as making a relatively late and ineffective effort to try to protect Porsche's autonomy. Oettinger has defended his conduct, arguing that he was lobbying for Porsche behind the scenes, and Wulff was in a better position to influence the negotiations because of his state's direct participation in VW.

¶4. (SBU) Oettinger's difficult and oftentimes tense relationship with Chancellor Merkel also did not help. B-W Christian Democrats were already annoyed with her in late 2008, when she made a joke about B-W accents while speaking at VW headquarters in northern Germany. Early in the Porsche-VW battle, Merkel openly sided with VW. B-W officials repeatedly criticized the axis between Berlin and

Hannover, particularly in connection with the unsuccessful request by Porsche for a 1.75 billion Euro credit line that B-W officials believe ended any chance that it could survive as an autonomous company. Merkel had already sided with Wulff and VW over Oettinger in late 2008, when Oettinger unsuccessfully lobbied to end Lower Saxony's ownership of 20 percent of VW.

A WEAKENED OETTINGER - AND A WEAKENED CDU?

15. Oettinger's perceived weak response has provoked criticism not only from the opposition but from members of his own party, the Porsche worker's council, and his coalition partner the Free Democratic Party (FDP). The FDP state party press spokesman told Consulate officials that Oettinger hesitated for too long before acting on behalf of Porsche. These problems come on the heels of other missteps and questions about Oettinger's political future. Earlier this month, the prestigious Stuttgarter Zeitung compared him to a medical patient in "serious but stable condition." In June, he raised the possibility of a VAT increase to pay for the burgeoning federal deficit; CDU leadership in Berlin promptly and vociferously denied any such possibility and expressed its displeasure with Oettinger. He is also under pressure from CDU state parliamentary caucus chief Mappus, who appears interested in his job and who was more outspoken on the need to intervene to protect Porsche.

16. (SBU) COMMENT: For Baden-Wuerttemberg, Porsche is much more than a car company; its loss of autonomy is a painful blow to the state's self-image that could cost the CDU votes in September. There was little sympathy on the national level to Porsche's

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predicament as it was seen as self-inflicted, but in B-W the contrast between Berlin's response to the fate of Opel and Porsche contributed to the appearance that Oettinger not only failed to deliver for his state, but did not try hard to do so. The resulting dissatisfaction has fueled the image of a divided party, which the German electorate traditionally dislikes. In addition, dissatisfaction with Merkel in B-W will make it harder to get out the CDU vote there. B-W party officials complain that Merkel seems to forget that their state is a crucial component of any CDU victory, and in 2005 it provided Merkel with about 14 percent of her total. FDP officials openly chastised Oettinger and Merkel during the Porsche struggle, but as in other recent elections, they may be in the best position to benefit in September from rank-and-file CDU dissatisfaction with its own leadership. Oettinger has now avenged himself by distancing himself from Merkel's strategy on Opel. END COMMENT
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